

# Chapter - III

## Compliance Audit



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#### Agriculture and Cooperation Department

### 3.1 Implementation of Reforms in Agriculture Marketing System and use of Regulatory Fees collected by State Agricultural Produce Market Committees

#### 3.1.1 Introduction

As per the Seventh Schedule of the Constitution, agriculture markets and fairs come under the State List. For the purpose of regulating agricultural marketing, the erstwhile Andhra Pradesh State had enacted the Andhra Pradesh (Agricultural Produce and Livestock) Markets Act, 1966. The Central Government had proposed a Model Act in the year 2003 for the regulation of Agricultural Marketing in the States. This was to act as a template for legislation regarding the subject in the States.

The Model Act, 2003 inter alia envisaged establishment of private market yards, direct purchase of agricultural produce from agriculturists, promoting and permitting e-trading, promoting direct sale by the producer and contract farming, single point levy of market fee, single registration/ licence for trade/transaction in more than one market and creation of marketing infrastructure from the revenue earned by the Agricultural Produce Market Committees (APMC).

The State Government amended the Andhra Pradesh (Agricultural Produce and Livestock) Markets Act, in 2005, 2011 and 2015 to incorporate provisions for private markets, contract farming, e-market, direct purchase centres, etc. as suggested in Model Act, 2003.

There are 191 Market Committees and 324 notified markets<sup>1</sup> in the State. The Market Committees levy and collect market fee at the rate of one *per cent* ad valorem from the purchasers of notified agricultural produce and livestock for transactions in the notified area. Out of the annual income of Agricultural Market Committees, 10 *per cent* (25 *per cent* from October 2015) of the income is contributed to a fund called Central Market Fund (CMF).

In Andhra Pradesh, Agricultural Marketing Department is under the administrative control of Agriculture and Co-operation Department headed by the Commissioner & Director of Agricultural Marketing, who is assisted by

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<sup>1</sup> Source: Outcome Budget of 2015-16 of Agricultural Marketing Department

one Director and other staff. There are 13 District Offices, headed by Assistant Directors of Agricultural Marketing.

Records at the Commissionerate and four selected district offices<sup>2</sup> for a period of five years (2011-16) were examined (January – May 2016) by Audit to assess whether necessary amendments in the State Act have been effected to adopt the reforms suggested by Central Government in Model Act, 2003 and whether the provisions of the State Act have been implemented effectively at field level. In addition to this, utilisation of regulatory fees (Market Fee, Licence fee, etc. collected by AMCs) by Agricultural Marketing Department and 72 AMCs in the selected districts was also examined.

## **Audit Findings**

### **3.1.2 Implementation of Model Act Provisions**

It was observed by Audit that some of the reforms suggested in Model Act were enacted by the State but not implemented and others had not been enacted as discussed below:

#### **3.1.2.1 Establishment of Private Markets**

As per the Model Act, 2003, Private Markets were to be established to promote and develop competitive marketing system in agriculture marketing sector. Accordingly, the State Act was amended in 2005 allowing private persons to establish market yards to organise sale/purchase of agricultural produce. However, as per the rules framed by the Department in May 2006, license fee of ₹ 50,000 and minimum capital outlay of ₹ 10 crore were required for establishment of private markets.

Audit observed that even after 11 years, no entrepreneur had come forward for establishing private market and no licences had been issued in the State (May 2016). Except making amendments in the Act and displaying the same in the notice boards of the AMCs, no concrete steps were taken by the Department to promote private markets. No expenditure was incurred on propaganda and publicity of private markets by the Department. The Agricultural Market Committees also had not taken any action to publicise the provisions regarding establishment of private markets as envisaged in the State Act.

The Department stated that efforts would be made to establish such markets.

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<sup>2</sup> Krishna, Guntur, Kurnool and East Godavari

### 3.1.2.2 Establishment of Direct Purchase Centres (DPC)

As per Section 7(7) of the State Act, Director of Marketing may grant/renew licence to establish Direct Purchase Centre (DPC) in a notified area, with such facilities as prescribed, for making purchases of agricultural produce, livestock and products of livestock from the producers for processing, grading, packing, storing and for sale/export.

Audit observed that in the test-checked districts, no DPCs were established till the date of the Audit. Though the State Act was amended to include the provisions for DPCs, the Department did not make any effort to promote and publicise the provisions for setting up DPCs. So far, no license has been issued to establish any DPC. Thus, the objective of promoting alternative agricultural marketing system with involvement of private parties could not be achieved. Due to this, the farmers were deprived of the benefits envisaged in the Act.

### 3.1.2.3 Inefficient e-Trade Markets

Section 26 (5) of the Model Act envisage promotion of e-trading. The market committee may establish a regulatory system, create infrastructure and undertake other activities and steps needed thereto. The State Act was amended in 2011 to incorporate the provision of e-trade market. The Rules framed (February 2013) by the Department stipulated that the person seeking licence to establish such market should have minimum net worth of ₹ 10 crore. In addition, licence fee of ₹ 50,000 and Bank Guarantee for ₹ 25 lakh were also to be furnished to the Department.

The Department issued licence (November 2013) to the National Commodity and Derivatives Exchange Limited<sup>3</sup> (NCDEX) to establish e-market. As per Government Order through which licence was issued, the agency was required to commence its operation from December 2013. NCDEX was to arrange warehouses and other facilities before commencement of actual business. Further, the Commissioner and Director of Marketing was to inspect the arrangements made.

Though the agency was required to give the details of warehouses, etc. to the Department, neither the agency furnished the details nor did the Department insist for the same. This indicated absence of monitoring of activities of the agency by the Department.

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<sup>3</sup> NCDEX is India's leading agricultural commodity exchange.

**(i) Lack of Facilities for e-Trading**

The Act was further amended in October 2015, according to which the Director of Marketing had to identify and notify markets for conducting online trading through electronic platform and the AMCs were to provide infrastructure for such markets. For this, 11 market yards in the State were identified for establishing e-trade markets in the first phase, out of which 10 e-trade market were established during October-November 2015. Out of the 10 e-trade markets, five<sup>4</sup> are in the test-checked districts. As reported by the Department, turmeric, chilli, groundnut, sunflower, etc. were being sold through these e-trade markets.

However, the AMCs were operating e-trade markets without providing essential services like grading, quality certification, collateral financing, transportation etc. as required under the Act and no action was taken by the Department to ensure the availability of essential services in the e-markets. Though e-trade markets have been established, no details regarding grading of product have been provided for information of the bidders. In the absence of these facilities, the traders from other areas could not trade remotely.

**(ii) Limited Access**

The purpose of introducing e-trade market was to create a state-wide virtual market linking all the primary agricultural market places. However, Audit observed that the markets established during the first phase were accessible only within the jurisdiction of the AMC. Only traders having licences with the respective AMCs have been trading in the e-trade markets. Moreover the present system does not allow the traders to trade without physically visiting the market yards due to non-availability of details regarding product quality and grading. The bidders have to physically verify the products available in e-trade markets.

This defeated the very purpose of establishing e-trade markets and prevented healthy competition. For instance, in Guntur AMC (largest revenue collecting market yard in the State), where e-trading of Chilli started in October 2015, out of the total 257151 lots traded upto March 2016, 240043 lots (93.35 *per cent*) received only single bids, 16842 lots (6.55 *per cent*) received double bids and only 266 lots (0.1 *per cent*) received three or more bids. No steps were taken by the Department to involve traders from other parts of the State/country.

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<sup>4</sup> Guntur – Guntur AMC, Duggirala AMC; Kurnool – Kurnool AMC, Yemmiganur AMC, Adoni AMC; East Godavari – Nil; Krishna – Nil

**(iii) Continuation of Commission Agents**

The objective of e-trade markets was also to limit the role of middlemen/commission agents in the market. However, as reported by the Department, except in AMC Duggirala, the commission agents were functioning in the remaining four AMCs, where e-trade system had been implemented. All transactions were made with the involvement of the commission agents even in these e-trade markets and farmers had to pay commission to the agents at rates (ranging between two to four *per cent* of sale value) prescribed by AMCs. Further, no mechanism was available to ensure that the payment to farmers was made on the day of transaction itself. No initiative was taken to credit the payments to farmers' bank accounts in these e-trade markets.

The Department stated that the commission agents had arranged for display of produce brought by the farmers, proper weighing of the produce and had disbursed the sale proceeds to farmers, after deducting their commission. It was also stated that steps would be initiated to credit the payments directly into farmers' bank accounts. The reply was not tenable as the reforms were intended to reduce the role of commission agents and as per the State Rules (Rule 56 and 67), AMCs were to arrange for these facilities in case the farmers preferred to sell their produce without employing commission agents. Moreover, no action was also taken to collect the account details of farmers for direct credit of payments.

**3.1.2.4 Direct sale**

As per Model Act 2003, no commission agent shall act in any transaction on behalf of an agriculturist-seller. The Model Act also stipulated that commission charges were to be paid by the purchaser of the agricultural produce and no amount towards commission was to be deducted from the sale proceeds payable to the agriculturist/seller.

However, in Andhra Pradesh, the Act or the Rules have not been amended in line with the Model Act. Due to non-adoption of the provisions of the Model Act, the farmers (in four out of five AMCs in the test-checked districts), paid commission charges amounting to ₹ 466.67 crore during the period 2011-12 to 2015-16 to agents at the rates prescribed under the by-laws of the respective AMCs. Had the above provisions of Model Act been adopted, payments of commission charges by farmers could have been avoided. AMC Duggirala which had banned the operation of commission agents in 1989 has been functioning efficiently without involvement of commission agents.

It was further observed that there was lack of uniformity regarding levy of commission charges and it varied among the AMCs. For example, the

commission charged on chilli was two *per cent* in AMC Guntur whereas the same was four *per cent* at AMC Kurnool.

The Department replied that commission rates were fixed based on the by-laws of the AMCs. However, as per the State Rules (Rule 73), the Director of Marketing is the authority for approval of all market charges and hence, the Director should have ensured uniformity in levy and collection of commission charges in various AMCs.

### **3.1.2.5 Contract Farming**

Model Act 2003 provides for promotion of 'Contract Farming'. The provisions enable direct sale of farm produce to contract farming sponsors without routing it through market yards. The Model Act provides for exemption of market fee on such contract farming transactions.

Government had amended the State Act in 2005 in line with Model Act. However, the provision for exemption of market fee on contract farming transactions was not included in the amendment.

Audit observed that Department had not issued any licence for contract farming so far (September 2016). Except for making amendments and displaying them in the notice boards of AMCs, no steps were taken by the Department to implement the scheme of contract farming.

Department stated that no sponsor had come forward to enter into contract farming agreements. However, initiatives like exemption of market fee in contract farming could have made contract farming more attractive to potential sponsors.

### **3.1.2.6 Non-Constitution of the State Agricultural Marketing Board**

The State Rules had a provision for setting up of an Agricultural Marketing Advisory Board to advise the Government/Market committees on effective implementation of the State Act/Rules, utilization of Central Market Fund, promotion of orderly marketing of notified commodities, review of working of regulated markets and bringing uniformity in marketing practices in all the regulated markets. However, no such Advisory Board had been constituted till the date of Audit.

Further, the Model Act provided that the State Government may constitute an Agricultural Marketing Board for coordinating the activities of markets and for overall development, promotion and regulation of agricultural marketing.

However, the State Government had not amended the State Act on these lines and no Agricultural Marketing Board was constituted. In March 2008, the Department submitted a proposal for amending the State Rules and setting up of a State Agricultural Marketing Board to bridge the gap between the market committees and Government and to overcome the issues pertaining to agricultural marketing. However, the Government did not accept the proposal stating that no changes were required in the prevailing system.

### **3.1.2.7 Composition of Market Committees**

The Model Act provides for direct election of members of the Agricultural Marketing Committees from the cultivators/farmers and registered traders. It further provides for election of the Chairman by the elected members of the market committees.

However, the State Act has not been amended in line with the Model Act. Section 5 of the State Act provides for the nomination of the Chairman and Members of Market Committees (from the category of growers, holders of livestock and traders) by the Government in consultation with the Director of Marketing, instead of election. The members and chairmen of the AMCs in the State are being nominated by the Government, which is against the spirit of the reforms and the Model Act.

#### **(i) Irregularities in constitution of Market Committees**

During the test-check of 13 AMCs (40 *per cent* AMCs in Kurnool and East Godavari Districts. Details of nominations in respect of Krishna and Guntur district were not furnished to Audit), it was noticed that the Government had forwarded (during 2014-15) the lists containing the names of the Chairmen and all other members to be nominated to the Commissioner. The Commissioner forwarded the same to the district offices. In turn, the District Officers resubmitted the panel lists, duly adding more names to the lists received from the Government and subsequently, all the names originally forwarded by the Government were notified without any change. In one case, a person was nominated to the Chairmanship of Mandapeta AMC by the Government in spite of the Department being aware that he was a defaulter and had not paid conversion fee for an illegal layout (as per the records of Revenue Department).

#### **(ii) Nomination of Trader Members**

The Andhra Pradesh (AP&LS) Markets Act (Section 5(ii)) provides for nomination of three members by the Government in consultation with Director of Marketing from among the licensed traders in the notified area.

During the scrutiny of records in the test-checked AMCs (13 AMCs), it was seen that most of the nominated members (20 out of 39 members in 13 AMCs) in the category of 'Trader Members' had made no transactions prior to their nomination. Out of these, trader licences to 18 members were issued after the receipt of the initial list of names from Government for nomination as committee members and in two cases, licences were issued just a day before receipt of their names from Government.

It was also observed that in case of three functional markets in Kurnool district, seven out of nine members nominated against the category of 'Trader Members' were Commission Agents as the Act included the Commission Agents too under 'Trader Members'. The nomination of commission agents in the committees was against the spirit of Model Act.

### **3.1.2.8 Public Private Partnership (PPP)**

The Model Act provides for setting up and promotion of public private partnership in management of agricultural markets for carrying out extension activities viz., collection, maintenance and dissemination of information in respect of production, sale, storage, processing, prices and movement of notified agricultural produce. For this, development funds were to be utilised by State Agricultural Marketing Board either on its own or through public private partnership.

Audit observed that no proposal to amend the State Act to incorporate provisions of Public Private Partnership was submitted to the Government so far.

### **3.1.3 Implementation of Provisions of the State Act**

Audit observed lacunae in implementation of the provisions of the State Act which are discussed below:

#### **3.1.3.1 Operation of excess licensees**

As per Government orders<sup>5</sup>, market committees are to consider issuing of fresh commission agent licenses only if sufficient space/shops were available in the market yard to conduct transactions. The commission agents are allotted shops in the compound of the market yards. In Kurnool AMC, 217 licences were issued against 163 shops which was against the Government orders and is tantamount to multiple agents operating from the same shop/space.

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<sup>5</sup> G.O.Ms. No.260 of Agriculture & Cooperation (AM.IV) Department, dated 28 September 2010

### 3.1.3.2 Non establishment of required Market Yards

As per the recommendations of the National Commission on Farmers 2004, a regulated market yard should be available to the farmers within a radius of five Km (i.e. one market for market area of about 80 square Km) to enable easy access. Based on the above recommendations, 2000 regulated markets should be available in the State.

It was observed that regulated markets were available within a radius of 13 Km and there were 301 market yards (including sub-market yards) available in the State (99 were in the four sample districts).

As per the State Act/Rules, the AMCs are required to provide infrastructure facilities to facilitate trade in the market yards. Out of the 99 market/sub-market yards available in test-checked districts, the Department furnished information in respect of only 15 yards (in East Godavari and Kurnool districts). Nine out of 15 market yards did not have the basic infrastructure like auction platforms, godowns, office building, etc. Details of the remaining 84 market yards/sub-market yards were not furnished by the Department.

### 3.1.3.3 Constitution of AMCs without requisite Market Yards

Out of 72 AMCs in the four test-checked districts, only 62 AMCs had market yards. The remaining 10 AMCs<sup>6</sup> had no market yards. The role of these AMCs was limited to collection of market fee on the agricultural produce purchased by the traders in the notified areas under the jurisdiction of the respective AMCs.

### 3.1.3.4 Under-utilisation of market yards

Out of the 99 market yards (including sub-market yards) constructed by 72 AMCs in four test-checked districts to regulate trade through tender/auction sale, farmers and traders have been visiting only nine market yards for the sale/purchase of agricultural produce (as per the details provided by the Department). In the remaining 90 yards, no wholesale/auction trade of agriculture produce was conducted during the period covered by audit.

- During the year 2011-16, only 0.50 *per cent* of the total market fee (₹ 237.77 crore) collected by the 20 AMCs of East Godavari district related to transactions in their market yards. The remaining 99.50 *per cent* market fee was collected by these AMCs on sales that had taken place outside their market yards. This shows that the volume of sale of agricultural/ livestock produce in the market yards was meagre.

<sup>6</sup> Eight of these were in East Godavari district and two in Guntur.

- In Krishna district, no market fee was realised for the sale of agricultural produce inside market yards through wholesale/auction sale. This implies that all the produce of the farmers in Krishna district was sold outside market yards without direct monitoring by the AMCs. Details of transactions inside the market yards in Guntur and Kurnool Districts were not furnished to Audit.
- The Director of Marketing or the AMCs had not placed any mechanism to monitor trading that takes place outside market yards. The Director of Marketing also did not have even the details of trading that took place both inside and outside the market yards.

The Department replied that most of the farmers were small and marginal farmers who would take loans from middlemen / traders to meet their farming, social and other needs. Their produce was in turn sold to these middlemen/traders. Further due to lack of transport, the farmers were depending on middlemen/traders.

However, the objective of the Act was to prevent the role of middlemen. Thus, both the Department and the AMCs had failed to promote and publicise the benefits of trading inside the markets which is reflected in the insignificant volume of trade inside the market yards of the AMCs.

### **3.1.4 Utilisation of Regulatory Fee**

Out of the annual income of AMCs, 10 *per cent* (25 *per cent* from October 2015) is contributed to the Central Market Fund (CMF) administered by the Director of Marketing. As per the State Act/Rules, the CMF was to be utilized for providing Grants-in-Aid/loans to market committees, expenditure on maintenance of the Fund, grading, market intelligence, publicity, development works, staff, purchase of properties, etc.

The remaining income retained by the AMCs is to be utilized by them for establishment of markets, providing facilities, staff salaries, publicity, etc.

#### **3.1.4.1 Non utilisation of Central Market Funds (CMF) on Development Activities**

Audit observed that CMF was mainly utilised for meeting establishment and office expenditure of staff and facilitating loans/funds to other Departments/ Agencies. During the period 2011-12 to 2015-16 (except for the year 2012-13, the details of which were not furnished to Audit), expenditure of ₹ 6050.19 lakh was made out of CMF out of which ₹ 5682.47 lakh (93.9 *per cent*) was incurred on establishment and office expenditure and 5.8 *per cent* was provided as loans to AMCs, as shown below:

Table 3.1 - Details of expenditure from Central Market Fund

(₹ in lakh)

Year	Total expenditure	Pay & Allowances/ office expenses	Loans to AMCs	Market Intelligence/ Grading/Publicity/ Seminars
2011-12	1766.94	1556.37	200	10.57
2012-13	Information not furnished			
2013-14	1877.22	1721.22	150	6.00
2014-15	1135.93	1134.78	0	1.15
2015-16	1270.10	1270.10	0	0
<b>Total</b>	<b>6050.19</b>	<b>5682.47</b>	<b>350</b>	<b>17.72</b>

**Source:** Information furnished by the Department

Only 0.3 per cent of the total expenditure was incurred on activities like propaganda and publicity, training, grading, etc., which are important for the promotion of marketing of agricultural products. Moreover, the records relating to the expenditure (training, grading, propaganda and publicity) were also not furnished to Audit.

#### 3.1.4.2 Diversion of Central Market Funds

As per Section 16 of the State Act, the Central Market Fund (CMF) can be utilised for the purpose of grant-in-aid to newly constituted market committees; grant-in-aid to deficit market committee for a period not exceeding three years; grant of loan to the market committee and such similar or allied purposes as specified by general or special order.

However, substantial amounts from CMF were diverted to other Departments/agencies in the form of loans/grants for purposes not covered under the State Act/Rules. During the period from 1996-97 to 2013-14, loans amounting to ₹ 305.62 crore and grants amounting to ₹ 54.25 crore were given to various Departments/agencies from CMF (total: ₹ 359.87 crore) though this was not permitted under the Act.

In addition, out of the total loans of ₹ 305.62 crore, the Departments/agencies had repaid only ₹ 54.21 crore to the Marketing Department leaving a balance of ₹ 251.41 crore (April 2016).

In respect of grants, the recipient Departments/agencies had furnished utilisation certificates (UCs) for ₹ 26.88 crore (out of ₹ 54.25 crore). These agencies had neither refunded the remaining amount of ₹ 27.37 crore to the Marketing Department nor furnished UCs for the same. Despite this, no action was taken by the Department for recovery of balance amount.

### 3.1.4.3 Application of Market Committee Funds

The year wise details of total market fee collected and expenditure incurred by the AMCs in the State from 2011-12 to 2014-15 are given below:

Table 3.2 - Details of market fee collected and expenditure incurred by AMCs

(₹ in crore)

Year	Income	Expenditure	Surplus
2011-12	367.81	311.49	56.32
2012-13	384.78	309.14	75.64
2013-14	501.89	365.94	135.95
2014-15	533.03	357.76	175.27
<b>Total</b>	<b>1787.51</b>	<b>1344.33</b>	<b>443.18</b>

Source: Information furnished by the Department

Thus, funds were available for providing essential facilities for trading/development activities. Audit observed the following:

### 3.1.4.4 Non-utilisation of funds on development/promotional activities and diversion for unrelated activities

As per records furnished to Audit, market fees amounting to ₹ 1787.51 crore was collected during 2011-15 by the AMCs. Out of this, an amount of ₹ 1344.33 crore was spent by them.

In test-checked districts, it was observed that expenditure incurred by AMCs was mainly towards meeting their establishment/office expenditure (45 per cent, including the advances paid to staff) and for construction of godowns in market yards (23 per cent). No expenditure was incurred on providing facilities/activities like grading, standardization, quality certification services, publicity/propaganda to encourage sale inside market yards, promotion of private markets, contract farming, direct purchase centres, etc. which are important for the growth of agricultural marketing activities in the State and to motivate farmers to trade inside the market yards.

The Empowered Committee of State Ministers in charge of Agriculture Marketing Reforms<sup>7</sup> had also suggested incorporation of a provision in the State Act to prohibit the utilisation of market funds for any purpose other than marketing infrastructure development (in its final report January 2013). No action was taken by the State Government to implement the same.

It was seen that AMC funds were diverted to other agencies like APMARKFED, Agriculture Department, Fisheries Department, Tobacco Growers' Association, etc. In test-checked districts, a total amount of ₹ 135

<sup>7</sup> Constituted by GoI (Ministry of Agriculture) in the year 2010

crore was diverted during the period 2001-11 as loans to different Departments/agencies which was pending for adjustment as of July 2016.

### 3.1.4.5 Construction of godowns without assessing requirement

As per the information furnished by three out of four test-checked districts<sup>8</sup> there are 321 godowns in the AMCs of these districts. However, the godowns available with AMCs were not fully utilised by them.

A scrutiny of details of vacant godowns in East Godavari, Kurnool and Krishna districts for the year 2015-16 showed that 76 godowns with a total capacity of 50615 MTs have remained unoccupied for eight to 12 months and 33 godowns with capacity of 43490 MT remained vacant for four to seven months during 2015-16. Despite large number of godowns remaining unutilised, AMCs continued to construct godowns without ascertaining the requirement. In May 2015, based on the proposal submitted by the Department, the Government accorded administrative sanction for construction of 35 new godowns for ₹ 37.82 crore under various AMCs in the State. Out of these, three godowns with a total capacity of 5000 MTs were sanctioned to three AMCs<sup>9</sup> in East Godavari and Kurnool districts. However, it was observed that five godowns (total capacity: 2800 MTs) already existing in these AMCs were lying vacant continuously for more than 11 months during 2015-16.

### 3.1.4.6 Non-payment of dues to farmers

Under the Model Act and the State Act, the AMCs are to ensure payment of the sale proceeds on the same day of transaction. The State Rules provide for payment of sale proceeds to the seller on the same day. However, it was seen that as of May 2016, an amount of ₹ 9.82 crore pertaining to the sale proceeds of *subabul* wood had not been paid by the purchaser, Sirpur Paper Mill to 319 farmers in Jaggaiahpetta and Nandigam AMCs in Krishna District. The sale had taken place in 2014. AMCs had however collected market fee on the same transactions.

The Department stated that the transactions were not done in market yards as the same were purchased directly from the farmers at private weighbridges. The reply of the Department was not acceptable as the AMCs had failed to ensure payment to the farmers even after collection of market fee.

<sup>8</sup> Details of godowns for Guntur district were not furnished to Audit in full shape.

<sup>9</sup> AMCs at Rajahmundry and Ramachandrapuram in East Godavari district and Nandikotkur in Kurnool district

### **3.1.4.7 Poor implementation of schemes**

Section 15 (viii) of the State Act allows the AMCs to expend the Market Committee Funds on schemes for extension of cultural improvement of notified agricultural produce, livestock and products of livestock within notified areas. The AMCs in the State implemented Rythu Bandhu Pathakam and Rythu Bheema Pathakam.

#### **(i) Rythu Bandhu Pathakam**

In order to prevent distress sales of agricultural produce, the scheme Rythu Bandhu Pathakam (Pledge Loan Scheme) was introduced<sup>10</sup>, wherein farmers are provided interest free loan of up to 75 *per cent* of the value of the crop produce pledged, subject to a maximum of two lakh rupees (one lakh rupees up to September 2014). The term of loan is limited to 180 days and AMCs are required to store the crop so pledged once they are harvested.

Audit observed that while there are 65.75 lakh (86.27 *per cent*) marginal and small farmers in the State, during the period from 2011-12 to 2015-16, only 2371 farmers on an average were benefited every year under the RBP Scheme. This indicates that the scheme was being implemented poorly.

#### **(ii) Rythu Bheema Pathakam (Insurance scheme)**

Rythu Bheema Pathakam, an insurance scheme for the farmers, weighmen and cartmen connected with the market yard, was started in June 2003. Under the scheme, the AMCs are to pay the insurance amount to the claimant or the legal heir in case of accidental death/disability of functionary.

It was observed that as per Government orders on the insurance scheme, the AMCs were to maintain and update annually the list of all the farmers who sold at least one quintal of produce in each of the previous three years. However, list of eligible farmers was not being maintained by the AMCs. Due to this, Audit has no assurance that the farmers who could have received benefits under the scheme were even aware of it.

Audit observed that only two individuals who were working in AMCs had received insurance benefit in the test-checked districts and no farmers had availed the benefit in the last five years (2011-16). Though the Department had paid benefit to only two individuals, in the absence of details of farmers, Audit could not ascertain whether all the beneficiaries were benefitted from the scheme.

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<sup>10</sup> Introduced in 1982, as pledge finance scheme and renamed as Rythu Bandhu Pathakam in 1995

### **3.1.5 Conclusion**

*Though the State had amended its Act in line with the Model Act to implement important market reforms like Private Market, Contract Farming, Direct Purchase Centre, e-Trade Market, etc., it failed to attract entrepreneurs/sponsors due to lack of publicity, non-exemption of market fee for contract farming, etc. As per Model Act, the commission charges were to be paid by the buyer of the agricultural produce. However, the State Act was not amended and the farmers were still paying commission charges. The existing provisions were not being implemented in the true spirit of reforms as envisaged in the Model Act. Further, the CMF and AMC funds were being diverted to other agencies/Departments instead of providing basic facilities which can reduce the dependence of farmers on middlemen.*

## **Transport, Roads and Buildings Department**

### **3.2 Andhra Pradesh Road Sector Project**

#### **3.2.1 Andhra Pradesh Road Network**

The Andhra Pradesh Roads and Buildings Department (RBD) has its jurisdiction over National Highways (4,913 Km), State Highways (6,167 Km), Major District Roads (19,183 Km) and Rural roads (15,567 Km) totaling 45,830 Km. Out of these total road network, the Core Road Network (CRN<sup>11</sup>) consists of 14,721 Km, which is being managed and maintained by the Andhra Pradesh Road Development Corporation.

In order to reduce the growing funding gap in road sector, a Loan Agreement was entered into (January 2010) between the International Bank for Reconstruction and Development (IBRD) and Government of India (GoI). After bifurcation of the State, the loan share fixed in respect of the present Andhra Pradesh State is 197.50 Million US Dollars, including expenditure incurred on the project during the period before bifurcation. As per the agreement, the project was to be completed by June 2015. After bifurcation of State into Andhra Pradesh and Telangana, it was rescheduled to May 2017.

#### **3.2.2 Project Components**

As per the loan agreement, the project comprises four components - (a) Road Improvement, (b) PPP facilitation support, (c) Institutional Strengthening and (d) Road Safety.

#### **3.2.3 Implementing agencies**

The Roads and Buildings (R&B) Department was entrusted with the overall responsibility for implementation of the project. Audit of implementation of the Project was conducted to ascertain whether the Project components were effectively implemented in a timely manner and the objective of providing better quality, higher capacity and safe roads to users in a sustainable manner through enhanced institutional capacity had been achieved.

Audit examined the project records since inception (January 2010) to March 2016 at Roads and Buildings Department, Headquarters Office<sup>12</sup> and eight field Divisions<sup>13</sup> during the period from December 2015 to June 2016.

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<sup>11</sup> Roads with high traffic intensity and strategic importance selected from State Highways and Major District Roads were designated as Core Road Network.

<sup>12</sup> Chief Engineer (R&B), CRN & Managing Director, APRDC, Hyderabad

<sup>13</sup> R&B Divisions at Visakhapatnam, Rajahmundry (RDC), Nellore, Gudur, Tirupati, Nandyal, Kurnool (RDC) and Ananthapuramu

Thirteen out of 26 Long Term Performance Based Maintenance Contracts (LTPBMC) and all the seven upgradation packages were also examined.

### **Audit Findings**

Audit observations on individual components of the Project are discussed below:

#### **3.2.4 Road Improvement Component**

The component comprised (a) upgradation of 302 Km of prioritized roads in two phases and (b) maintenance of 4301 Km under LTPBMC.

Audit observations on implementation of this component are discussed in the subsequent paragraphs.

#### **3.2.5 Upgradation Packages**

##### **3.2.5.1 Shortfall in taking up road stretches for upgradation**

The AP Road Development Corporation (APRDC) had engaged a consultant (2007) for conducting feasibility studies and preparation of preliminary designs of 38 selected road sections for a total length of 2002 Km. Based on the consultant's report, 14 road stretches with a total length of 302 Km were selected for upgradation under APRSP. Against the 302 Km length mentioned in the loan agreement, roads for a total length of 295 Km were actually entrusted under upgradation contracts. No reasons were found on record for not taking up the remaining 7 km road. The Department had not stated specific reasons for short award of work.

##### **3.2.5.2 Delays in award of works / procurement of goods**

As per the Procurement Plan agreed to between the Government of Andhra Pradesh and the IBRD, there were 104 items to be procured under the project. Out of these, 54 items were test-checked in audit. The Procurement Plan prescribed the methodology of procurement of goods, works and consultancy services, estimated costs of different items and timeframes for their procurement.

The Procurement Plan was to be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. It was observed from the records that though the procurement plan was prepared/updated, the timelines stipulated were not adhered to. This led to delay in completion of various components/sub-components of the project.

Audit observed delays at various stages of procurement of works, goods and services as discussed below:

**(i) Execution of works:** There were a total of 42 works to be executed under Road Improvement and Road Safety components of the Project. Out of these, 23 were test-checked. Audit observed that only four works have been completed till the date of Audit (June 2016). Out of these, two were completed within the original time frame. The reasons for delay in completion of the remaining 21 works are as shown below:

<i>Status of works</i>	<i>Reasons for delay</i>
Two works were completed with delays of 3 to 31 months	In the upgradation work of Chittoor-Puttur Road, there was a delay of 31 months due to several changes (July 2011 - November 2014) in the scope of work during execution. In the Black Spot Improvement work in Visakhapatnam district, there was delay of three months due to delay in handing over of site and slow pace of work in ghat section.
The remaining 19 works were at various stages of execution	In three upgradation packages <sup>14</sup> , the Department had cancelled (May 2010) the initial bids due to low competition and high bid prices. Substantial time was lost in review/revision/ approval of estimates and invitation of fresh tenders and these works were finally awarded during November 2011 - April 2012. In the remaining 16 works, there were delays ranging from four to 61 months in investigation and designing, preparation and approval of estimates and invitation/ finalization of tenders. All these works were in progress.

**(ii) Procurement of goods:** In goods procurement, out of 29 items, 18 items were test-checked in audit. Out of these one item (renovation of office building and procurement of furniture), for which a provision of ₹ 1.4 crore was made, was not taken up due to bifurcation of State. Audit observed that there were delays in procurement in the remaining 17 items. It was observed that procurement of four items was completed with delay of 10 to 30 months, as shown below:

<i>Item</i>	<i>Reasons for delay</i>
(1) computer, (2) printers and (3) photo copiers	There were delays of 23 to 30 months due to delayed finalization of estimates by the R&B Department.
(4) breath analyzers and speed laser guns	There was delay of 10 months due to delay in finalization of specifications and preparation of estimates in consultation with Transport Department.

The process of procurement of the remaining 13 items was still going on with delays ranging from 18 to 26 months. The reasons for delay are as follows:

<sup>14</sup> KD 02 (Kurnool - Devanakonda road), MJ 03 & MJ 04 (Mydukuru - Jammalamadugu road)

<i>Item</i>	<i>Reasons for delay</i>
(1) Modernization of check post at Renigunta, (2) Electronic weigh bridge at Renigunta and (3) Inspection and Certification Centre at Kadapa	There were delays ranging from 23 to 25 months due to delay in finalization of specification and preparation of estimates in consultation with Transport Department.
(4) CT scan equipment and (5) medical equipment for Trauma Care Centre at Rajampeta	There were delays ranging from 23 to 25 months due to delay in invitation of tenders.
(6) Ambulance	There was delay of 26 months in signing the contract after finalization of the bids.
(7) and (8) Enforcement equipment for Police Department, (9) Cranes, Light motor vehicles and Interceptor vehicles, (10) Furniture and (11) Computers/printers	There were delays ranging from 18 to 24 months, due to delays in design, investigation and finalization of estimates.
(12) Development of management information system	There was delay of 25 months due to delay in design, investigation, finalization of estimates and preparation of bid documents.
Procurement of another item 'supply and installation of Road Database Management Software (cost: ₹ 2.93 crore)' has not been completed. Audit could not work out the delay in this case, as no timelines had been fixed by the Department for this item.	

**(iii) Procurement of Consultancy services:** As per Procurement Plan, there were 26 consultancy services to be procured out of which Audit test-checked seven consultancy services. Out of these, procurement of one consultancy service (for preparatory services for maintenance contracts) was completed within the prescribed time. In the remaining six consultancy procurements, delays ranged from 15 to 48 months. Two Supervision Consultant services engaged for supervision and quality control of upgradation contracts were being continued beyond their original agreement periods, due to non-completion of the road works.

The remaining three consultancy services for Road Management System, Road User Satisfaction Survey and Implementation Support Services under Institutional Strengthening Action Plan (ISAP) component were also going on due to bifurcation of the states and other delays attributable to the Department, as discussed in subsequent Paragraphs 3.2.6.4; 3.2.8.1 and 3.2.8.2.

**(iv) Procurement of consultancy for road data collection:** The Department concluded six contracts for road data collection in 13 districts. It was observed that in four contracts, there was delay ranging from two to four months in entrustment due to delay in invitation of bids. Collection of data under one

contract (in Srikakulam, Vizianagaram and Visakhapatnam districts) was completed within the scheduled time. In another contract (in Guntur and Prakasam districts), collection of data was completed with a delay of two months due to delay in signing the contract after finalization of tenders.

From the above, it was evident that delays persisted at every stage from investigation to completion and this resulted in time and cost overrun as discussed in subsequent Paragraphs 3.2.5.3; 3.2.8.1; 3.2.8.2 and 3.2.9.3. This indicated that the Department did not adequately plan for implementation of the Project before approaching the IBRD for loan.

The Department attributed (July 2016) overall delay in procurement to non-submission of specifications/ requirements and estimates for goods and equipment to be procured by the line Departments. This indicated lack of co-ordination among the Departments.

### **3.2.5.3 Slow progress of works**

Under the Road Improvement component of the project, the Department took up upgradation of roads for a total length of 295 Km. These works were divided into seven packages and were awarded during August 2009<sup>15</sup> to September 2014. The status of these works as of July 2016 was as follows:

*Table 3.3 – Status of upgradation works taken up under APRSP*

Name of the Road (Package No.)	Agreement value (₹ in crore)	Month of award/ Target date	Progress as of July 2016
Chittoor –Puttur Road (CP-01)	113.09	August 2009/ March 2012	Completed
Kakinada-Rajahmundry Road (KR-07)	200.54	February 2013/ March 2016	5%
Kurnool-Devanakonda Road (KD-02)	133.54	September 2014/ October 2016	55%
Pedana-Nuzvid-Vissannapet Road from Km 7.000 to Km 58.920 (PNV-08)	165.34	August 2012/ March 2015	21%
Pedana-Nuzvid-Vissannapet Road from Km 62.250 to Km 95.460 (PNV-09)	82.48	July 2012/ August 2014	50%
Mydukuru-Jammalmadugu Road from Km 153.000 to Km 171.000 (MJ-03)	65.21	January 2012/ March 2014	90%
Mydukuru-Jammalmadugu Road from Km 177.400 to Km 194.670 (MJ-04)	53.56	April 2012/ June 2014	61%

*Source:* Information furnished by the Department

As can be seen from the above Table, six out of the seven works were still in progress, though their original target dates were long over. Audit observed the following:

<sup>15</sup> Upgradation of Chittoor-Puttur road was awarded before the date of concluding loan agreement with the IBRD, but forms part of the project.

**(i) Upgradation work of Kakinada – Rajahmundry Road (KR-07):**

- **Delay in completion:** This package consists of two sections (Section-I: 31.000 Km and Section-II: 30.600 Km). As per the contract conditions, the section-I and section-II were to be completed by September 2015 and March 2016, respectively. On scrutiny of records, it was observed that the land required for section-I was handed over to the contractor by February 2014. In respect of section-II, out of the total length of 30.60 Km, the Department had handed over land for a stretch of 22.64 Km in a phased manner (March – June 2016). Despite providing interest free mobilization advance and complete land for section-I and part of land for section-II, the contractor did not show progress of work. The actual work executed (July 2016) was only 5.40 *per cent* for which an amount of ₹ 7.09 crore was paid (February 2016).
- As per the records produced to Audit, the IBRD has now proposed (June 2016) for deletion of package KR-07 from the scope of the project and the State Government may have to complete the balance works from its own resources.
- **Non levy of delay damages:** A Construction Supervision Consultant (CSC) engaged (December 2011) to supervise the upgradation package works issued many notices to the contractor (KR-07) for speeding up the pace of work. Owing to non-response from the contractor, the CSC recommended (April 2014 and April 2015) termination of the contract. However, instead of terminating the contract, the Department granted (March 2016) interim Extension of Time (EOT) for section-II up to August 2016 at the request of the contractor, without levy of damages of ₹ 20.05 crore leviable as per agreement. Since the delay in execution was attributable to the contractor as per the correspondence made by the CSC, non-levy of penalty led to extension of undue benefit of ₹ 20.05 crore to the contractor.

The Department stated (July 2016) that the contractor had requested for further EOT upto March 2017 and a decision on EOT and delay damages would be taken as per recommendations of the CSC.

- **Non recovery of mobilization advance:** It was also observed that as per the contract conditions, the Department had paid (March and June 2013) interest-free mobilization advance of ₹ 30.08 crore to the contractor. As per the agreement conditions (Clause 14.2.a), recovery of mobilization advance was to commence after 30 *per cent* progress was achieved. However, recovery of mobilization advance had not commenced even after lapse of more than three and half years of its drawl by the contractor. This resulted in blocking of the mobilization advance with the contractor.

The Department replied (July 2016) that it could not commence recovery of mobilization advance as the value of work done was less than 30 *per cent* of contract price. The reply was not acceptable as the Department had failed to ensure proportionate progress as per the time lines. Further, since the proposal for termination of contract was under consideration of the Government, the recovery of the mobilization advance may be difficult.

**(ii) Upgradation work of Kurnool - Devanakonda Road (KD-02):** In this package, the contractor failed to execute the work as per agreement conditions though land for the entire stretch was handed over (January 2012) by the Department. The progress of work achieved by the contractor was only 1.27 *per cent* against the planned progress of 24.69 *per cent*, by the end of July 2013. An amount of ₹75 lakh was paid to the contractor. The Department terminated (July 2013) the contract under clause 15.2 and 15.4 of the agreement according to which the extra cost involved in balance works completed through another contractor had to be recovered from the first contractor. After termination, the Department took more than one year to re-entrust the remaining work. The Department awarded (September 2014) the balance work to another contractor at an agreed value of ₹133.54 crore for completion in 24 months involving extra cost of ₹63.41 crore. Against the recoverable amount of ₹63.41 crore, only ₹5.81 crore was available with the Department. It may, however, be pointed out here that according to agreement conditions, the extra cost involved in balance work being completed through another contractor had to be recovered from the first contractor.

As of July 2016, the new contractor had executed only 55 *per cent* work in 20 months from the commencement date. Considering the slow pace of execution, completion of the balance 45 *per cent* work before the end of loan period (May 2017) seems doubtful.

**(iii) Upgradation of Pedana-Nuzvid-Vissannapet road (PNV-08):** This work was awarded (August 2012) to a contractor for ₹165.34 crore, for completion by March 2015. The Department could acquire land pertaining to only 51.95 *per cent* of the road stretch as of August 2016. It was observed that though the Department had handed over land for 46 *per cent* of the road stretch by November 2014, the contractor executed only 21.44 *per cent* work by February 2016. An amount of ₹30.23 crore was paid to the contractor. The Department terminated (February 2016) the contract under clause 15.2 and 15.4 of the agreement according to which the extra cost involved in balance works completed through another contractor was to be recovered from the first contractor. The remaining work was divided into three packages and tenders were floated (April 2016) at a total estimated cost of ₹231.66 crore, involving extra cost of ₹96.55 crore. It was observed that as per the tender notice, the time stipulated for completion of balance works was 15 months. As of

September 2016, the works were not awarded due to non-receipt of approval from the IBRD. Thus, with only eight months of the loan period remaining, the possibility of completing the balance work within the loan period is remote and utilization of IBRD loan assistance fully may not be possible.

**(iv) Upgradation of Pedana-Nuzvid-Vissannapet road (PNV-09):** The work was awarded (July 2012) to a contractor for ₹ 82.48 crore, for completion by August 2014. As per the agreement, the Department was to hand over the complete road stretch to the contractor by February 2013. As observed from the Construction Supervision Consultant (CSC)'s report (January 2015), the work on 6.35 Km road (out of a total of 33.208 Km) was affected due to non-payment of compensation to the land owners. The compensation was paid to the land owners and handing over of entire stretch was completed only in March 2016. While the land compensation issue contributed to the delay in execution of work to some extent, the contractor also did not show the desired progress of work and only 50 *per cent* progress had been achieved as of July 2016. As reported (July 2016) by the CSC, the slow pace of work was due to the contractor's inability in mobilizing funds. However, the Department did not levy delay damages of ₹ 8.25 crore on the contractor as per agreement. At this pace of progress, the work may not be completed before the project closure period.

**(v) Upgradation of Mydukuru-Jammalamadugu road (Package Nos. MJ-03 and MJ-04):** The work of package MJ-03 was awarded (January 2012) to a contractor for ₹ 65.21 crore for completion by March 2014. Though the Department had handed over (August 2012) the complete road stretch within the time stipulated in the agreement, the work had not been completed even after time over-run of 28 months. As of July 2016, the contractor could complete 90 *per cent* of the work. However, delay damages of ₹ 6.52 crore were not levied on the contractor for slow progress of work.

Similarly, MJ-04 package was awarded (April 2012) to a contractor for ₹ 53.56 crore for completion by June 2014. As per the agreement, the Department was to hand over the complete road stretch to the contractor by December 2012. It was observed that, out of the total stretch of 17.59 Km, the Department could hand over a total length of 15.91 Km to the contractor in a phased manner during April 2012 to June 2014. Road stretch of 1.68 Km was still to be handed over. As of July 2016, the progress of work achieved was only 61 *per cent* and completion of this package work before May 2017 appears doubtful.

Thus, while the delays in acquiring lands and handing over of site delayed the progress of works in four packages, slow pace of work by the contractors coupled with the Department's failure to levy delay damages/terminate the

contracts and to re-entrust the balance works in a timely manner, led to non-completion of the upgradation packages.

Besides, in respect of KD-02 and PNV-08 packages, which were terminated, the cost of works increased by ₹ 63.41 crore and ₹ 96.55 crore, respectively. The Department stated (July 2016) that in the case of KD-02, the extra cost had already been notified for commencement of arbitration and in the case of PNV-08, the amount would be recovered through arbitration.

### **3.2.6 Long Term Performance Based Maintenance Contracts**

The RBD had taken up 26 works across various districts in Andhra Pradesh under Phase-I and II under LTPBMC which provided for maintenance of CRN. The stated economic benefits of these works were savings in vehicle operating costs, travel time, distance and maintenance costs. While seven works under Phase-I were completed by March 2014, 19 works under Phase-II were nearing completion.

As per the project agreement, the Department had to maintain a length of 6241 Km which was revised to 4301 Km after bifurcation of the State.

#### **3.2.6.1 Lack of definite criteria for selection of road stretches for Maintenance component works**

Under the road maintenance sub-component of APRSP, Department had planned 6241 km<sup>16</sup> of CRN, which included 4890 km roads developed under AP State Highway Project, AP Economic Restructuring Project and 'Maintenance component' of another IBRD Project. However, the criteria adopted for selection of the remaining 1351 Km were not furnished to Audit.

#### **3.2.6.2 Deficient planning in selection of roads for maintenance**

Audit observed that some of the roads which were taken up for maintenance under this project were later deleted from maintenance contracts on ad-hoc basis for taking up widening/ improvement works under other schemes. Out of the 2011 Km of road length covered under the test-checked LTPBMC works, 413.036 Km were upgraded as National Highways and another 59.172 Km were taken up for widening/improvement by the State Government. The details are shown in **Appendix 3.1**. The initial inclusion of these road stretches in the maintenance contracts and subsequent deletion indicated lack of proper planning in identification of road stretches for maintenance under this Project. Both these lengths of roads were deleted from the scope of the project and the Department had not evolved any replacement plan for the packages, though the terms of the loan as well as the agreement did not prohibit taking up of

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<sup>16</sup> Out of 6241 Km of CRN proposed under combined State, 4301 Km pertains to successor State of Andhra Pradesh.

other reaches for maintenance. This resulted in deletion of stretches from LTPBMC packages and short utilization of loan in respect of the extent of the length deleted.

For example, the LTPBMC Package no. 33, consisting of 107.860 Km of length, in Ananthapuramu District, was awarded to a contractor (October 2011). During the course of contract, the package was cancelled by the Department due to declaration of a major stretch 96.550 Km out of the total length of 107.860 Km (i.e., 89.51 *per cent* ) as National Highway (74.400 Km) and taking up of widening work (22.150 Km) under Normal State Plan. This resulted in closure of the contract, midway, by concluding a mutual closure agreement (June 2015).

Thus, lack of proper planning in selection of roads for maintenance led to subsequent deletion of stretches of road after awarding the works and consequent short utilization of the loan.

### **3.2.6.3 Non-recovery of excess payment**

In LTPBMC package no.1 (Visakhapatnam division), an amount of ₹4.04 crore was paid (during 2009-2014) to the contractor towards price escalation on bitumen.

However, the Third Party Quality control (TPQC) consultant had intimated (August 2014) the Department that only ₹2.58 crore was due for payment to the contractor. Excess amount of ₹1.46 crore was paid due to incorrect adoption of bid date. The bid date of 02 May 2008 was incorrectly adopted by the Department, instead of 15 July 2008, which resulted in incorrect adoption of increased rates. This was also confirmed by the Chief Engineer (November 2014) while issuing instructions to reconcile the same.

Though the matter was brought to the notice of the divisional authorities by the TPQC Consultant in August 2014, no action was taken to recover the excess amount paid. The Department replied (March 2016) that it was pursuing the matter with the contractor.

### **3.2.6.4 Conducting of Road User Satisfaction survey**

APRDC had appointed (December 2010) a consultant to carry out the Road User Satisfaction Survey (RUSS) for all the packages taken up under the Project. The objective was to improve road transport in the State by giving senior management in the RBD an insight into the issues raised by the road users and thereby enhance future strategic and operational decisions. The survey was to be conducted twice, i.e. before implementation (RUSS-1) and during implementation (RUSS-2) of works. The consultant had submitted

reports for RUSS-I in March 2013, RUSS-II in August 2015 and updated final report in June 2016 exclusively for the State of AP.

As per Task-3 of contract agreement, the consultant was to present the survey findings to the senior management of the RBD and other relevant decision makers in the Government and the findings were also to be made public. The consultant had earlier submitted (August 2015) his final report with certain recommendations. A stakeholder meeting was also conducted (August 2015). An updated Report was submitted (June 2016) exclusively for Andhra Pradesh. The consultant was asked to revise the Report and submit it by June 2016. As per the Progress Report of APRSP for July 2016, the consultant's report was under review.

The Department stated (July 2016) that the final Report was under review. However, the survey results may become irrelevant due to the passage of time.

### **3.2.7 PPP Facilitation Component**

The component was included to strengthen the capacity of the Government to develop selected high traffic density corridors under Public Private Partnership (PPP), via toll revenues and viability gap support from the Government of India. Audit observed that the Department could not identify any high traffic density corridor in the State for development under PPP arrangement.

### **3.2.8 Institutional Strengthening Component**

This component was to provide targeted technical assistance, training and advisory services for strengthening of APRDC, with requisite capacity for its responsibilities in managing the CRN and aiding in various aspects of project implementation, including the Asset Management Program, the Governance and Accountability Action Plan (GAAP) and the Institutional Strengthening Action Plan (ISAP) and associated monitoring and coordination etc.

#### **3.2.8.1 Non implementation of recommendations of consultant on Institutional Strengthening Action Plan**

Government of Andhra Pradesh had accorded administrative sanction<sup>17</sup> (February 2011) for the work "Consultancy Services to Institutional Strengthening Action Plan (ISAP) implementation" for ₹ 5.50 crore. The work was awarded (March 2011) to a consultant to carry out the above services for ₹ 6.97 crore (later revised to ₹ 9.49 crore) for completion by December 2013.

The Consultant had submitted (February 2014) their recommendations for the combined State. After bifurcation of the State, GoAP took 15 months to extend (September 2015) the services of the consultant for 20 months to refine

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<sup>17</sup> G.O.Ms.No.28, TR&B R(IV) Department, dated 18.2.2011

the report according to the requirement of the successor State of Andhra Pradesh. The contract was awarded for ₹ 4.29 crore.

The Department stated (July 2016) that a report tailored to the requirements of the new State was being developed by the consultants and assured of implementation of the recommendations in the new Report to be submitted by the consultant as and when approved by the Government.

### **3.2.8.2 Non-compilation of Road Data and non-commencement of Road Management System**

As a part of Institutional Strengthening, establishment of a Road Management System (RMS) was proposed to improve the Road Development Corporation (RDC)/RBD's planning for both capital and maintenance budget received from various sources. Development and implementation of RMS involved the following three activities:

- (i) Collection of data regarding the physical condition of roads across the State, using automated data collection equipment;
- (ii) Procurement of Road Database Management Software; and
- (iii) Feeding the physical road data and other details like soil parameters, traffic volume, etc. as inputs into the Road Database Management Software to generate annual roll-out plans for capital and maintenance works based on the annual budget available.

The Department engaged (April 2011) a consultant for an agreed fee of ₹ 6.18 crore for providing technical assistance and establishment/operationalize the RMS in the combined AP State. The contract was for 72 months i.e., 42 months for establishment of RMS and 30 months for implementation support. The Department concluded (March 2014) another agreement with a vendor for ₹ 2.48 crore for supply and customization of Road Database Management (RDBM) Software. The vendor has supplied the software and the same was being customized/configured as per the Department's requirements (May 2016).

As per the agreement concluded with the RMS consultant, the Department was to collect and provide the road data to the consultant. It was observed that the Department could not provide road data to the RMS consultant in time due to delay in taking a decision as to whether to purchase automated equipment to collect the data or to outsource the same and further delays in the tender process. Though the initial decision (June 2012) was to procure the equipment, this was abandoned due to high bid prices quoted when tenders were called for the same. Later, it was decided to outsource the data collection by dividing the work into two packages and tenders were invited. However, the tenders were cancelled (May 2015) as none of the bidders met the qualification criteria.

Finally, the work was divided into six smaller packages and entrusted during January to September 2016. Out of the 13 districts, collection of data pertaining to five districts (two packages) has been completed as of July 2016. Collection of data pertaining to the remaining eight districts (four packages) had not been completed. Due to non-collection of road data for all the districts, the objective of generating the annual roll-out plans has not been achieved.

Further, due to delay in implementation of RMS, the Department had to conclude (February 2016) an amended agreement with the RMS consultant for a further amount of ₹ 6.26 crore for the present AP State (against original agreement value of ₹ 6.18 crore for the combined State). This was in addition to ₹ 1.29 crore already paid to the consultant. As per the revised agreement, the RMS is now scheduled to be established by June 2017 and thereafter the maintenance support would be provided for only 12 months against 30 months stipulated in the original agreement.

Thus, delay in taking a decision as to whether to purchase automated equipment to collect the data or to outsource the same coupled with further delays in the tender process led to the delay in collection of road data, resulting in delay in establishment of RMS besides increasing the cost thereon.

### **3.2.9 Road Safety component**

This component was to help in providing safer road corridors by initiating measures to reduce road accidents on major corridors by assisting the concerned agencies to:

- (a) Undertake ‘demonstration projects’ on selected CRN corridors;
- (b) Carry out an extended black-spot improvement program;
- (c) Implement institutional and policy action plans for improving the State’s road safety responsibility framework and capacities; and
- (d) Evolve a policy and strategy taking into account results of demonstration projects, etc., for improving road safety in the entire State.

#### **3.2.9.1 Development of a demonstration corridor**

The demonstration (demo) corridor was to be a model corridor to be developed with multi sector road safety measures adopted by different Departments viz. Roads and Buildings, Transport, Police and Medical and Health.

A length of 138 Km in Renigunta-Rayalacheruvu road was taken up for development as a demo corridor at an estimated cost of ₹ 10.85 crore. The Department estimated that the average deaths on this road were 0.6 per Km. It

was proposed to improve eight curves, 10 junctions, one truck lay bay and strengthening of three stretches under the demo project. These were to be re-designed to the extent possible and the overall visibility was to be improved.

The following observations are made in this regard:

### 3.2.9.2 Improper estimation of curves/junction improvements

The curve and junction improvement works on Renigunta-Rayalacheruvu road was awarded (January 2014) to a contractor for an agreed value of ₹ 11.87 crore. The work was completed (June 2015) and an amount of ₹ 9.81 crore was incurred resulting in a savings of ₹ 2.06 crore. On scrutiny of estimate and worksip, it was observed that in five sub-works, curve/junction improvements were not taken up and in another five sub-works, only road furniture<sup>18</sup> was provided as the work of improvements had already been taken up by R&B division, Rajampeta under different agreements with State Government funds. It showed that there was no synchronization of works amongst the R&B Department and APRDC, as the work identified under the Project was taken up by R&B Division, Rajampeta.

Evidently, while preparing the estimate, the Department had not taken sufficient care in identifying the curves/improvements to be corrected. In two cases, the Department found that no improvements were required, in two cases Right of Way<sup>19</sup> was not available and the Department did not initiate any action to obtain the same. In another case, the reason for deletion of improvement was not on record.

In another stretch<sup>20</sup>, though strengthening of 1.2 Km was provided for, only 300 meters were strengthened. The reasons for reduction were not on record.

These clearly show that the work had been taken up without proper survey, which led to deletion/modification of the work later. With proper planning, more roads could have been improved with the savings.

### 3.2.9.3 Non procurement of goods/services for demonstration corridor

Besides curve/junction improvements by the RBD, the development of Renigunta-Rayalacheruvu road as demo road corridor also involved providing road safety measures in co-ordination with different Departments viz. Transport, Police and Medical and Health. These Departments were to furnish their requirement, technical specifications and estimates for goods and services to facilitate procurement of the same by RBD.

<sup>18</sup> Includes cautionary sign boards, reflective sheeting, reflective road studs, junction boards, galvanized barriers, concrete kerbs, name boards and synthetic surface painting

<sup>19</sup> Right of Way means the land stretch reserved for the purpose of public transport/road.

<sup>20</sup> Km 60.500 to Km 62.300 of Renigunta-Rayalacheruvu road

It was observed that the procurement of goods/services for Medical and Health, Police and Transport Departments were still in progress (July 2016). These Departments had modified their estimates and specification of their requirements multiple times leading to delays.

Construction of a Trauma Care Centre, procurement of ambulances, medical equipment etc., at Rajampeta; procurement of enforcement vehicles, construction of one Police Highway Outpost, construction of an electronic weigh bridge and modernization of checkpost at Renigunta; and establishment of Inspection and Certification Centre, Kadapa had not been completed.

The Medical Department expressed their inability to provide human resources to operate/maintain the medical equipment. IBRD did not agree with the proposal of the Police Department to engage a private firm for providing human resources for operation of Highway Outposts, enforcement equipment, interceptors, cranes, computers, etc. Transport Department had not taken a decision on the manner of manning their equipment/infrastructure. It procured speed laser guns and breath analyzers and delivered (June 2015) the same to Police Department. However, reports relating to usage/evaluation of the equipment were not submitted to IBRD by these Departments.

The R&B Department attributed (July 2016) the delay to involvement of various Departments and lack of coordination/non-finalization of requirements in time.

There were delays of 10 to 26 months in procurement of items relating to demo corridor due to lack of co-ordination among the stakeholder Departments and the demo corridor may not be completed before the loan closure period (May 2017), if this issue is not sorted out.

#### **3.2.9.4 Award of evaluation contract without completion of demo corridor**

A consultant to evaluate the improvements in Road Safety in demo corridor and document the lessons learned thereof and to assess the effectiveness of stakeholder Departments and implementation process in the project was appointed (August 2015) at an agreed cost of ₹ 2.05 crore with a stipulation to submit the report in 12 months.

As stated above, the Departments have not completed their procurement process and the equipment already purchased were not being put to use due to lack of qualified manpower. This implies that awarding of evaluation study for an incomplete road safety work was unjustified. As of March 2016, an amount of ₹ 83 lakh had already been paid to the consultant.

### **3.2.9.5 Delay in formulation of Road Safety Policy**

As per the agreement with IBRD, the Road Safety Policy of the State was to be developed after completion of two demo corridors utilizing the lessons learnt from their implementation by July 2016.

However, only one corridor was selected for development as demo corridor and the work was still in progress as of July 2016, which has delayed the formulation of Road Safety Policy.

The objective of formulation of a Road Safety Policy before loan closure may not be achieved due to the delays observed in development of the demo corridor.

### **3.2.9.6 Non-evaluation of black spot improvements**

A black spot is defined as a location on a road where accidents are highly concentrated. A black spot could be a curve, intersection or a regular stretch of a road and could vary in length, but it is usually about 200 to 400 metres. It was proposed (February 2014) to take up six black spot improvement works under the component against which five were taken up due to paucity of funds. Each work was to cover multiple black spots.

Though the works were completed (February-June 2015), no evaluation study was taken up to ascertain the reductions in number of accidents to assess the effectiveness of the improvement works.

The Department accepted (July 2016) the Audit observation and stated that the SEs had been instructed to evaluate the performance.

### **3.2.10 Conclusion**

*The Project was taken up to remedy the funding gap in road sector in the State. However, significant deficiencies were observed in implementation of the Project. The implementation of the project was adversely affected due to delays in procurement of works/goods/services, deficient planning and slow pace of works. Out of seven upgradation works taken up under the project, only one was completed and there were delays in the remaining six works. Considering the current pace of execution, some of the upgradation works are unlikely to be completed within loan closure period and there is a risk of under-utilization of IBRD loan assistance. In two upgradation works, cost of balance works were yet to be realized from the contractors. Liquidated damages were not levied in respect of three upgradation works despite delay in execution of work by the contractors. Road stretches for Long Term Performance Based Maintenance Contracts (LTPBMC) were identified without any specified criteria, road stretches were deleted from the scope of*

*contracts due to their conversion as NHs or having been taken up under other State schemes and alternate roads were not taken up in lieu of the deleted stretches. The objectives of Institutional Strengthening component had not been achieved as the final reports of the consultants are yet to be submitted. Delay in taking a decision whether to purchase automated equipment to collect the data or to outsource the same coupled with further delays in the tender process led to the delay in collection of road data. This hampered the development of Road Management System. Items relating to Demo corridor remained incomplete due to lack of coordination among line Departments. Thus, the goals contemplated under the Project may not be fully achieved before the end of loan period (May 2017).*

## Industries and Commerce Department

### 3.3 Development of Textile and Apparel Parks

#### 3.3.1 Introduction

As part of implementation of government policies, plans were formulated to establish Textile and Apparel Parks in Andhra Pradesh starting from 2002-03. The objective of setting up of these Parks was to increase textile exports and to generate employment opportunities in handloom and textile sector. The agencies chosen to implement them were the Directorate of Handlooms and Textiles (DHT), Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC) and private parties through Special Purpose Vehicles (SPV)<sup>21</sup>. Currently, there are 11 such Parks in the State as detailed in *Appendix 3.2*. Out of the 11 Parks, three Parks had received financial assistance from Government of India (GoI) under the Scheme for Integrated Textile Parks (SITP)<sup>22</sup> and one Park under the Apparel Parks for Exports Scheme (APES)<sup>23</sup>. The remaining seven Parks were taken up with State Government funds.

Audit reviewed five Parks, one developed by a private party with Government support (Brandix India Apparel City Private Limited (BIACPL)), two by APIIC (Apparel Export Park (AEP), Proddutur and Vizag Apparel Export Park (VAEP)) and two by DHT (Textile Park, Mylavaram and Textile Park, Rayadurg). BIACPL and VAEP had received GoI assistance under SITP and APES, respectively. The funds allotted, released and expenditure incurred on these Parks are detailed in *Appendix 3.3*.

Records maintained at the offices of the Assistant Directors of the Parks being developed by DHT, Zonal Managers of the concerned Zones in case of Parks developed by APIIC and at the office of the SPV were reviewed (May - June 2016) to ascertain the implementation of these parks and achievement of the targets. Significant audit findings are discussed in the subsequent paragraphs.

<sup>21</sup> SPV in these cases is a Corporate Body registered under the Companies Act formed with the representatives of local industry, financial institutions, State and Central Government.

<sup>22</sup> SITP was launched in July 2005 to create new textile Parks of international standards at potential growth centres. Under the scheme GoI support by way of grant or equity will be limited to 40 per cent of the project cost subject to a ceiling of ₹ 40 crore for Parks.

<sup>23</sup> APES was intended to impart focused thrust to setting up of Apparel manufacturing units of international standards at potential growth centres. Under the scheme, GoI gives 75 per cent of the capital expenditure limited to a maximum of ₹ ten crore incurred by the State Government on the infrastructural facilities of the Apparel Parks.

## **Audit findings**

### **3.3.2 Preparation of faulty Detailed Project Reports**

Andhra Pradesh Industrial and Technical Consultancy Organization Limited (APITCO)<sup>24</sup> had prepared the Detailed Project Report (DPR) of three Parks<sup>25</sup> developed by DHT / APIIC and in the case of the Park developed by SPV, Infrastructure Leasing and Financial Services Limited (IL&FS) prepared the DPR. The DPRs envisaged creation of common infrastructure and common facilities in the Parks. The DPR in respect of Textile Park, Rayadurg was not furnished to Audit.

Deficiencies were observed in two of the DPRs prepared as discussed below:

#### **3.3.2.1 Textile Park, Mylavaram**

For the Textile Park, Mylavaram, the Department had identified land to an extent of 62.18 acres in Mylavaram and asked the APITCO to conduct feasibility study. During feasibility study (October 2004), APITCO had reported that it was not feasible to develop textile park in the land identified by the Department since it was a remote place, not having required rail and road connectivity or provision for electricity supply. Despite this, APITCO had subsequently prepared (November 2004) a DPR for the development of textile park in the above land. It was stated in the DPR that the land surface was plain and involved minimum development cost. The site also had easy accessibility to water due to proximity to Mylavaram reservoir and availability of groundwater. The potential for immediate investment and employment generation were also stated to be favourable factors.

Audit observed from the records that the Water Resources Department could not provide water from Mylavaram reservoir and at present, the Textile Park was depending on a borewell to meet its requirements, as discussed in Para 3.3.5.1. Further, though the DPR stated that the location had potential for immediate investment by the entrepreneurs, only 43 out of 118 plots were allotted to entrepreneurs and no unit had been established till the date of audit.

Thus, the Park could not be set up due to selection of improper site and non-availability of water.

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<sup>24</sup> APITCO was given the consultancy to evaluate the need and feasibility of setting up a Textile Park.

<sup>25</sup> Textile Park, Mylavaram; Vizag Apparel Parks for Exports, Visakhapatnam; and Apparel Export Park, Proddutur

### 3.3.2.2 Apparel Export Park, Proddutur

In respect of the AEP at Proddutur, Kadapa district, a DPR was prepared (2004) for establishment of AEP on 50 acres of land. GoAP had sent (July 2004) proposals to GoI seeking funding under Apparel Export Park Scheme. However, GoI returned the proposals (November 2004) pointing out several deficiencies in the proposal. GoI stated that the land identified was only 50 acres against 150-250 acres prescribed in the Scheme guidelines, the export orientation was only marginal and the DPR lacked details of the proposed garment units/investment/ production/marketing, etc. The Master Plan had also not been indicated.

The State Government started development of the AEP with its own funds by acquiring (April-November 2007) 76.17 acres of land without preparing any fresh DPR duly addressing the deficiencies pointed out by GoI. Due to this, the Park has not received any investor as discussed in Para 3.3.9.5.

### 3.3.3 Delay in completion of the projects

Audit observed significant time overruns in completion of the Parks ranging from 23 to 156 months as detailed in *Appendix 3.4*.

- While one Park, BIACPL, was partially completed with a delay of 23 months, three Parks viz., Textile Park, Mylavaram (125 months), Textile Park, Rayadurg (156 months) and Apparel Export Park, Proddutur (115 months) were not completed (July 2016), even though these were proposed to be completed by February 2006, June 2003 and December 2006 respectively, due to non-transfer/delay in transfer of lands in the name of DHT. Such transfer was necessary to enable the DHT to allot/transfer the individual plots in these Parks to entrepreneurs for setting up textile/apparel units.
- In two Parks viz., Apparel Export Park at Proddutur and Textile Park at Rayadurg, non-development of infrastructure was also a factor for delay in completion of the Parks.
- Non-strengthening of external road connectivity by Government in BIACPL and non-establishment of Common Effluent Treatment Plant by the developer (SPV) in VAEP contributed to non-performance of these Parks at optimal level. The occupancy in these Parks was 76 per cent and 56 per cent, respectively and there was time overrun of 23 months and 139 months respectively, in these Parks.

These issues are discussed in detail in the subsequent paragraphs.

### **3.3.4 Cost overrun**

Out of five Parks reviewed, in case of one Park, viz., Textile Park, Proddutur, audit observed cost overrun of ₹ 2.51 crore (i.e. 87 per cent). Only two components viz., land acquisition and internal roads had been completed at a cost of ₹ 5.40 crore whereas the cost projected for the components was ₹ 2.89 crore.

DHT had initially assessed (July 2005) the land cost at ₹ 2.25 crore for 150 acres. However, due to delay, the land cost increased and an expenditure of ₹ 3.28 crore was incurred for acquiring 76.17 acres of land (April and November 2007).

In the DPR, cost of laying the internal roads was estimated at ₹ 64 lakh. The land for the Park was acquired in April/November 2007. However, the internal roads were completed only in March 2010 with an expenditure of ₹ 2.12 crore. The delay led to cost overrun of ₹ 1.48 crore on internal roads.

Audit could not compute the cost overrun on the remaining components/Parks as they were ongoing (May-June 2016).

### **3.3.5 Non-provision of utilities**

As per the Textile and Apparel Promotion Policy of 2005, the State Government was to give necessary assistance in providing power, water and other utilities to the Integrated Textile Parks developed by private parties. The Government was also responsible for providing these facilities in the Parks being developed by DHT and APIIC. Once the units in the Parks became functional, the developers were required to maintain the utilities by collecting service and user charges from unit holders in the Parks.

Audit observed that there were deficiencies in provision of utilities in the five Parks. Textile Park, Mylavaram had problems with water supply. AEP, Proddutur did not have water and electricity supply connections. Textile Park, Rayadurg and BIACPL had problems with external road connectivity. In VAEP, the work relating to the Common Effluent Treatment Plant (CETP) was not taken up. The Park-wise details are given below:

#### **3.3.5.1 Textile Park, Mylavaram**

Textile industries required large quantity of water for various processes. The Textile Park at Mylavaram was planned to accommodate 118 textile units. The water requirement of this Park was estimated to be 2.84 lakh litres per day as per the DPR. Water was proposed to be drawn from Mylavaram dam. However, Audit observed from the records that the Government had expressed (May 2007) its inability to allocate water from Mylavaram reservoir due to

non-availability of water. Irrigation Department was requested (2007) to explore the possibility of diversion of water from other sources. Response of the Irrigation Department and further correspondence, if any, in the matter was not forthcoming from the records of H&T Department. Subsequently, a borewell was laid (2007) nearly three kilometers north of the Textile Park which subsequently dried up. Again a new borewell was laid in June 2015 about 20 metres north of the Textile Park. At present, water from this borewell is sufficient to meet the current requirements since no unit has been established so far. However, it may not be adequate once the units are set up and start functioning.

### **3.3.5.2 Textile Park, Rayadurg**

The Water Treatment Plant (WTP) and widening of approach road were yet to be taken up for which 10 acres and 0.54 acre, respectively, were required additionally. Though the requirement of extra land was identified in September 2009, the lands were yet to be acquired and the works were yet to be taken up, due to non-release of funds by the Government.

Assistant Director (H&T), Ananthapuramu replied that the Government had released only ₹ 3.25 crore against the total project cost of ₹ 7.05 crore and that works would be taken up after release of balance funds.

### **3.3.5.3 Vizag Apparel Export Park**

As per the DPR, the effluents were to be treated in the Common Effluent Treatment Plant (CETP) and then disposed of through a pipeline. However, the construction of CETP had not been taken up (June 2016). The Department replied (June 2016) that CETP was not set up as there was no place to dispose of waste effluents of the plant in nearby areas. Besides, the Park had low occupancy rates. The reply was contrary to the fact that the location of the CETP was earmarked in the DPR which proposed laying of a four kilometer long pipeline for disposal of effluents. No active proposals/correspondence was found in the Department's records on this issue.

### **3.3.5.4 Brandix India Apparel City Private Limited**

As per the Government orders<sup>26</sup> (June 2006), strengthening of the existing road stretch of 14 km from National Highway-5 to Atchutapuram, the town nearest to the Park, was to be taken up by APIIC/R&B Department. However, the work was not taken up due to which the transport facilities to the Park remained inadequate. The SPV also stated (June 2016) that due to non-widening of the road, it was finding it difficult to bring in additional investors.

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<sup>26</sup> G.O.Ms.No.154 dated 9.6.2006 of Industries & Commerce (Tex) Department

### **3.3.5.5 Apparel Export Park, Proddutur**

Against the estimated cost of ₹ five crore for development of infrastructure facilities such as internal roads, water supply and electricity, common facilities centre, storm water drainages and sewage, medical and training centre buildings and equipment, etc., the Department released only ₹ 50 lakh to APIIC (May 2016). APIIC had laid internal roads and barbed wire fencing at a cost of ₹ 2.26 crore. The DHT did not release further funds due to which the remaining works had not been taken up (May 2016). This led to non-completion of the project.

### **3.3.6 Non-achievement of objectives**

Audit observed substantial shortfalls in achievement of the objectives of increase in export sales and employment generation.

There were no export sales in Textile Park, Mylavaram, AEP Proddutur and Textile Park, Rayadurg. The VAEP stated that information relating to export sales was not available. In respect of BIACPL, the export sales during the year 2015-16 were worth ₹ 1752.20 crore and it was stated that no targets were fixed for export sales.

While the shortfall in establishment of units was in the range of 24 to 100 *per cent*, shortfall ranged from 74 to 100 *per cent* in employment generation.

- No unit was established in Textile Park, Mylavaram (May 2016). Out of 118 plots developed, only 43 plots were allotted to entrepreneurs, but no unit was established due to non-alienation of land.
- In AEP Proddutur, out of 47 plots, no plot was allotted to any entrepreneur (August 2016) due to non-transfer of land to DHT by the APIIC.
- In Textile Park, Rayadurg, only one unit was established (April 2016) against 55 units proposed. The employment generation was also only 100 against the targets of 16,400 in these three Parks (May 2016).
- In VAEP, 27 units were established out of 48 units envisaged and employment generation was only 1,532 against the proposed employment generation of 85,000.
- BIACPL was allotted (June 2006) 1,000 acres of land on lease for 25 years with the objective of providing employment for 60,000 persons. The units in the Park were required to make an investment of ₹ 3,800 crore in the Park to create the projected employment. However, BIACPL and the units could invest only ₹ 568 crore and the employment generated was only 15,162 (May 2016).

### **3.3.7 Idling of infrastructure created**

In Textile Park, Mylavaram, pending alienation<sup>27</sup>, the land was developed into 118 plots and infrastructure worth ₹ 2.79 crore was set up till March 2010. The infrastructure created remained idle as no unit was established in the Park due to non-alienation of land in the name of DHT as discussed in Para 3.3.9.1.

In Textile Park, Rayadurg, the Department developed infrastructure facilities like buildings for common facilities, electrical network, road network, etc. incurring expenditure of ₹ 2.58 crore. These remained idle as no unit was established until March 2016 by the entrepreneurs, despite allotment of plots during 2006-07 and 2007-08, due to delay in alienation of land in the name of DHT. Only one unit had started (April 2016) functioning after more than two years after allotment (December 2013) of the land in the name of the Department.

In AEP Proddutur, APIIC had laid internal roads and barbed wire fencing at a cost of ₹ 2.26 crore. However, other essential facilities like water supply, electricity, training centre, warehousing centre, etc. were not completed due to non-release of further funds by DHT and no plot was allotted to any entrepreneur in the AEP. As a result, the infrastructure established at a cost of ₹ 2.26 crore remained idle.

### **3.3.8 Allotment of plots to non-textile/apparel units**

In Vizag Apparel Export Park, Audit observed that plots were allotted to non-textile/apparel units. Three entities viz., Andhra Pradesh State Trade Promotion Corporation, Balaji Industries Services and Mezaan Dharm Kanta which were not in the textile sector, were also allotted plots in the Park.

In AEP Proddutur, out of 76.17 acres of land acquired, five acres were allotted (December 2008) to the Transport Department for setting up of Regional Transport Office building and Driving Test Track. This, however, did not affect the development of the Park as the DPR was prepared for only 50 acres, though 76.17 acres were acquired.

### **3.3.9 Financial impact on Government exchequer in terms of acquisition of land**

The acquisition of land for these Parks followed different procedures, based on the implementing agency and the scheme under which they were covered.

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<sup>27</sup> Alienation of the government land to Government departments/institutions for remunerative purposes will normally be on collection of its market value subject to conditions prescribed in the Standing Orders of AP Board of Revenue (BSO). The BSO permits handing over of possession of the land pending formal approval of alienation proposal by the Government.

- As per the SITP guidelines, in case of Parks developed by private parties, the entity developing the Park was to procure the land. The State Government was to assist in identification and procurement of suitable land.
- In case of Parks developed by DHT, the land was to be provided by the District Administration.
- In case of Parks developed by APIIC, the land was to be owned and developed by them.

Audit observations on land acquisition and allied issues in the test-checked Parks are discussed below:

### **3.3.9.1 Textile Park, Mylavaram**

The Commissioner and Director of Handlooms and Textiles and Development Commissioner AEPs (CDHT) had requested (August 2004) the District Collector (DC) to provide land for Mylavaram Textile Park. The district revenue authorities identified 62.18 acres (Gutta poramboke<sup>28</sup>) for development of the Park. The advance possession of land was taken over (March 2005) by DHT. The land was developed before alienation into 118 plots and infrastructure worth ₹ 2.79 crore was created by March 2010.

After six years (February 2011) of taking advance possession, DHT approached the DC for alienation. The DC requested (September 2011) DHT to pay market value of the land as Government land could not be transferred free of cost for commercial purposes. However, ADHT requested Revenue Department to provide the land value particulars of 62 acres only in March 2013. Subsequently, ADHT requested CDHT to accord permission for withdrawal of ₹ 62.18 lakh for payment of the same (April, December 2013 and June 2014). In the meantime, Tahsildar, Mylavaram conducted field measurement of the area and the land available was found to be only 59.50 acres. DHT permitted ADHT (September 2014) to pay an amount of ₹ 59.50 lakh towards the cost of 59.50 acres as reported by the Tahsildar, Mylavaram. However, the amount was not paid to revenue authorities due to the discrepancy. On the instructions of the DC (October 2014) to inspect the land, Revenue Divisional Officer, Jammalamadugu informed (May 2015) the DC that during the earlier survey the area of 59.44 acres had excluded compound wall area of 2.74 acres. The actual area was 62.18 acres after inclusion of the same. The revised proposal for alienation was submitted to DC (November 2015) by the DHT and the same was submitted by the DC to the Chief Commissioner of Land Administration in June 2016. However, the land had not been alienated (August 2016), which led to delay in further activities.

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<sup>28</sup> Land on hillocks which is reserved for State or communal purposes

Thus, improper survey led to non-alienation of land in the name of DHT. This resulted in non-commencement of units in the Park and the expenditure of ₹2.79 crore incurred for creation of infrastructure in the Park remained unfruitful.

### 3.3.9.2 Textile Park, Rayadurg

DHT requested (October 2002) the District Collector, Ananthapuramu to allot 30 acres of land at Rayadurg for establishment of Textile Park. In response, the district revenue authorities identified Endowment land to the extent of 17.24 acres. However, no action has been taken by the DHT to acquire the balance land of 12.76 acres (November 2016).

The land identified was handed over to DHT, under advance possession clause, during April 2005, on making an advance payment of ₹7.23 lakh. In the meantime, the Honourable High Court had imposed (June 2005) a ban on acquisition of the Endowment land without its prior permission. The land was developed into 55 plots and allotted (2006-07 and 2007-08) to entrepreneurs while under advance possession. The Government permitted (February 2011) State Level Committee (SLC)<sup>29</sup> to take up the issue as a special case and fix the market value. The SLC, while fixing the market value, directed (October 2011) the Revenue Department to complete the process of obtaining permission from the Honourable High Court within three months. Writ petition for obtaining the permission was, however, filed only in 2012 and permission was obtained only in November 2013. Consent award was passed in December 2013 and DHT could finally acquire the land in 2014-15, by paying the total amount of ₹22.73 lakh. Audit observed that only one unit was functioning (April 2016), five units were under construction and the remaining 49 plots were vacant (September 2016).

Further, the Department had proposed (September 2009) to set up a Water Treatment Plant and widen the approach road for the Park for which additional land of 10.54 acres was required. An amount of ₹2.70 lakh was paid (December 2009) as advance to Land Acquisition Officer. The same is yet to be acquired (May 2016).

Thus, the delay in land acquisition due to inappropriate site selection led to delay in establishment of units in the Park. The expenditure of ₹2.81 crore incurred on the Park (₹23 lakh on land acquisition and ₹2.58 crore for creation of infrastructure) remained largely unfruitful, as the intended objective could not be achieved.

<sup>29</sup> As per AP Land Acquisition (State Level Negotiation Committee (SLNC)) Rules 1998, if the valuation is not accepted by the land owners they may convey their willingness to settle through government/SLNC to enhance their compensation by more than 50 per cent.

### **3.3.9.3 Vizag Apparel Export Park**

An extent of 145.60 acres of land in Industrial Development Area, in Autonagar, Visakhapatnam was selected (July 2003) for establishment of the VAEP and APIIC was designated as implementing agency for the same. Although APIIC was the implementing agency, an SPV, Vizag Apparel Park for Export, was incorporated (March 2004) to monitor the implementation of the Park. An amount of ₹7.41 crore was released by the Department to APIIC towards infrastructure development.

Though the area was being developed as an AEP, approval for the layout was taken in January 2003 as part of Industrial Development Area. Subsequently, no revised layout was submitted to Visakhapatnam Urban Development Authority (VUDA) for AEP though the DC had advised (October 2003) APIIC to do so.

As per the APES, under which the Park was sanctioned (July 2003), the State Government or an Undertaking sponsored by the State Government (the designated agency) was to provide land free of cost for establishing the Park. Though the SPV resolved to pay ₹ three crore to APIIC for the 145.60 acres of land, it did not make any payment and the APIIC did not hand over the land to the SPV.

APIIC had demarcated 75 plots and sold them to 48 entrepreneurs collecting an amount of ₹ 18.78 crore towards sale proceeds. However, the amount was not handed over (May 2016) to the SPV.

The SPV has remained a non-starter owing to non-transfer of land/sale proceeds.

### **3.3.9.4 Brandix India Apparel City Private Limited**

Government had entered (July 2005) into a Memorandum of Understanding (MoU) with Brandix Lanka Limited (Firm) for development of Apparel Park and generation of 60,000 direct jobs. As per the terms of MoU, an SPV was to be formed by the firm and Government was to provide 1000 acres of land. A lease agreement was entered into by the Government and the Firm during June 2006. The firm formed an SPV, Brandix India Apparel City Private Limited (BIACPL), for development of Apparel Park and the Government provided Land (1,000 acres) on “lease” for 25 years at Atchutapuram of Visakhapatnam District. The Government was to provide infrastructure facilities like improvement of external road connectivity, etc. and the date of providing the same was to be notified as commitment fulfilment date.

As per the land lease agreement, in the event of failure of the SPV to generate employment of 60,000 jobs within five years from the commitment fulfilment date, it was to pay lease rentals equivalent to the then prevailing lease rentals

in proportion to the extent of employment not created by SPV. SPV also had the option to surrender the remaining land.

Against the target of 60,000 jobs, the BIACPL could create only 11,634 jobs as of July 2012 and APIIC transferred (September 2014) proportionate land of 193.80 acres to BIACPL. As of January 2015, a total of 15,162 jobs were created and the SPV was entitled to have 252.7 acres of land. Despite non-utilization of the balance land by BIACPL, the Government had not recovered the enhanced lease rentals on this land from October 2014 to date (May 2016), as the infrastructure facilities agreed upon under 'State Support' in the lease agreement had not been developed fully and the commitment fulfilment date had not been notified.

### 3.3.9.5 Apparel Export Park, Proddutur

Government of Andhra Pradesh had decided (May 2005) to establish an AEP at Proddutur at an estimated cost of ₹ five crore. It had requested (August 2005) the APIIC to acquire 150 acres of private land at an estimated cost of ₹ 2.25 crore. Due to hike in the cost of land around the land identified for AEP Proddutur, the Zonal Manager, APIIC proposed (September 2006) acquisition of 100.84 acres of land at a lower cost in another location identified by the Revenue Department. After joint inspection (October 2006) with the Revenue authorities, 93.26 acres of land was identified, which included 7.36 acres of DKT land<sup>30</sup> and 9.73 acres of land under dispute in Courts. APIIC deposited an amount of ₹ 3.28 crore towards land cost to the Revenue Department. DHT while releasing the land cost of ₹ 2.25 crore (November 2006 and March 2007) to APIIC, requested (February 2007) it to restrict the purchase of land within the amount of ₹ 2.25 crore, as no further provision of funds was available. Despite this, APIIC acquired 76.17 acres (April and November 2007) at a cost of ₹ 3.28 crore. The remaining 17.09 acres of land (9.73 acres under disputes and 7.36 acres of DKT land) have not been acquired (August 2016).

APIIC had incurred a total expenditure of ₹ 5.58 crore on acquisition of land and laying of internal roads and barbed fencing in the Park against the total amount of ₹ 2.75 crore released by DHT. The remaining infrastructure was not yet developed due to non release of funds by DHT and no plot was allotted to any entrepreneur in the AEP.

In view of non-payment of balance amount by DHT, APIIC proposed (November 2012) to convert the AEP into an Industrial Park. Government directed (March 2014) APIIC to hand over the possession of land of AEP to DHT and settle the accounts. However, APIIC got the draft layout approved

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<sup>30</sup> Darakhastu land (Land assigned to poor which cannot be sold)

(May 2015) by District Town and Country Planning Committee for Industrial Park and did not hand over the land to DHT (August 2016). Thus, the expenditure of ₹ 5.58 crore incurred on the AEP remained unfruitful.

### **3.3.10 Conclusion**

*The establishment of Textile and Apparel Parks was intended to increase employment and export of textiles/apparels. There were delays ranging from 23 to 156 months in establishment of Parks due to improper selection of site, delays in transfer of lands to Handloom and Textile Department, non-completion of infrastructure facilities and amenities. This resulted in significant non-achievement of objectives of Parks as envisaged. There was 24 to 100 per cent shortfall in setting up units in these Parks while the shortfall in employment generation ranged from 74 to 100 per cent.*

## Water Resources Department

### 3.4 Non-accrual of savings of ₹6.47 crore to Government on reduction of scope of work

Under Handri Niva Sujala Sravanthi (HNSS) Project (Phase-II), the Department had invited (January 2007) tenders for the work of 'Investigation, Preparation of Hydraulic Particulars, Designs, land plan schedules, Drawings and formation of Gollapalli Reservoir with a capacity of 1.613 TMC<sup>31</sup> on Madakasira Branch Canal between Km 8.000 to Km 10.000 and providing distributary system to feed an ayacut<sup>32</sup> of 10,000 acres under the Reservoir, including construction of CM & CD<sup>33</sup> works (package 53)'. The work was awarded (July 2007) to a contractor for ₹51.88 crore (with a tender discount of nearly 23.12 per cent over the estimated value of ₹67.48 crore) for completion within 36 months (i.e. by July 2010). The contractor executed only 0.87 per cent work and an amount of ₹0.45 crore was paid (November 2013) to him. Due to lack of progress, the Department deleted work valued at ₹47.18 crore from the scope of the agreement and entrusted (September 2014) the same to a new contractor. The work was in progress and an amount of ₹41.86 crore was paid to the second contractor as of June 2016.

During scrutiny (June 2016) of the records pertaining to the above work in the HNSS Division No.10, Dharmavaram, Audit observed the following:

The agreement with the first contractor was an Engineering, Procurement and Construction (EPC) turnkey contract, under which, the contractor was to conduct detailed survey and investigation, prepare and submit designs and drawings to the Department in line with the basic project parameters broadly defined in the agreement. On approval of the same by the Department, the contractor had to execute the entire work including all ancillary and incidental items of work and deliver the project in complete shape.

The major component of work under the agreement was construction of Gollapalli reservoir. As per the basic project parameters mentioned in the agreement, the Full Reservoir Level (FRL) of the Gollapalli reservoir was to be +532.20 M.

After conducting detailed survey and investigations, the contractor had submitted (May 2008) the reservoir designs with a reduced FRL of +529.00 M. While according permission for reduction in FRL, Government had directed (January 2009) the Department to conclude a supplementary

<sup>31</sup> Thousand million cubic feet

<sup>32</sup> Irrigated area

<sup>33</sup> Cross masonry and cross drainage

agreement with the contractor to reduce the contract price to account for the reduction in FRL by 3.2 meters. As per the departmental records, the savings due to reduction in FRL was estimated to be ₹ 6.47 crore<sup>34</sup>. The Department addressed (March/ April 2009) the contractor to submit cost estimates for the revised scope of work with reduced FRL and conclude supplementary agreement for the revised cost. However, the contractor did not come forward to conclude supplementary agreement on the ground that it was an Engineering, Procurement and Construction contract. The contractor did not show progress of work thereafter. Due to lack of progress of work, the Department deleted (August 2014) the reservoir work from the scope of the agreement and entrusted (September 2014) the same on nomination basis to a new contractor, who came forward to execute the deleted work at the original agreement rates.

Audit observed that the Department had concluded agreement with the new contractor for the full value of ₹ 47.18 crore, without reducing the difference on account of reduced FRL. However, while approving (December 2014) the payment schedule under the agreement, the Superintending Engineer, HNSS Circle-3, Madanapalle (SE) reserved an amount of ₹ 8.76 crore citing that if reduction in agreement value was necessitated as per Government orders, the same could be adjusted from the reserved amount. However, based on a request received from the new contractor, the Chief Engineer (NTRTGP), Tirupati instructed the SE to release full payments to the contractor on the ground that the intended capacity of the reservoir was achieved even after reduction of FRL. The SE released payments accordingly. The new contractor has completed 88.72 *per cent* of work as of May 2016 and an amount of ₹ 41.86 crore had already been paid, without adjusting the savings due to reduction in scope of work.

The justification given by the Department for non-reduction of the agreement value of the second contractor was not tenable since the designs submitted earlier by the first agency also contemplated the same storage capacity with the reduced FRL. While Government had ordered reduction in contract price of the first contractor since there was change in the basic project parameters, a different stand was taken in the case of the second contractor, though the circumstances were the same in both cases. Thus, failure of the Department to reduce the differential amount from the agreement concluded with the second contractor led to non-accrual of savings of ₹ 6.47 crore to the state exchequer.

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<sup>34</sup> Estimated cost of reservoir with FRL (+) 532.20 M was ₹ 61.92 crore. Estimated cost with reduced FRL of (+) 529.00 M was ₹ 53.52 crore. Thus, the savings at estimate rates was ₹ 8.40 crore. After applying tender discount of (-) 23.1156 *per cent*, the net saving was ₹ 6.47 crore.

The above audit observation was forwarded to the Government in September 2016 (reminded in October, November and December 2016); reply had not been received.

### **3.5 Excess payment of ₹4.97 crore to contractor due to front loading of payments**

As part of the Handri Niva Sujala Sravanthi (HNSS) Project (Phase-II), the Water Resources Department had awarded (December 2006) the works of “Investigation, design and drawings, excavation and construction of Tunnel on HNSS main canal from Km 285.100 to Km 287.100 (Package-6) and from Km 358.150 to Km 360.250 (Package-10)” to a contractor under Engineering, Procurement and Construction (EPC) Turnkey contract for ₹32.40 crore and ₹28.08 crore, respectively, with a stipulation to complete the works within 36 months (i.e. by November 2009). Extension of time was granted for both packages up to June 2013, due to obstructions by the farmers owing to non-payment of land compensation, heavy rains, delay in finalisation of designs, etc. The agency executed the work and received payments of ₹26.14 crore in Package-6 and ₹21.33 crore in Package-10 (November 2012 and March 2013 respectively). As the agency did not show any progress thereafter, the Department deleted part of the work from the scope of both the agreements, prepared fresh estimates and awarded (October 2015) the same to another agency for ₹35.49 crore and ₹35.50 crore respectively. The works were in progress (June 2016).

During scrutiny (June 2016) of the records pertaining to the above work in the HNSS Division No.10, Dharmavaram, Audit observed the following:

As per the conditions of contracts concluded with the first agency, the total agreement value would be divided into various works components/sub-components and their cost specified in percentage terms in the Schedule of Payments in the agreement. The interim payments for each sub-component would be regulated out of the percentage cost so assigned. The main works components under both these packages were (i) Excavation of tunnel/approach channel and (ii) Providing cement concrete (CC) lining to tunnel and approach channel. Audit observed that as per the departmental estimates prepared for these two packages, the cost of ‘Excavation of tunnel/approach channel’ worked out to 73.79 *per cent* and 71.44 *per cent* of the total estimated value of respective packages and the cost of ‘CC lining’ worked out to 24.45 *per cent* and 26.88 *per cent*, respectively. However, in the payment schedules of these agreements, the Department provided higher percentages towards excavation of tunnel/approach channel, while reduced percentages were provided for lining work, as shown below:

Item of work	Cost Percentage of the component as per estimate	Amount of contract value w.r.to percentage in estimate (₹ in crore)	Cost percentage provided in the approved payment schedule	Amount as per payment schedule (₹ in crore)	Increase (+)/decrease (-) in the payment schedule (₹ in crore)
<b>Package-6</b>					
Tunnel & approach channel	73.79	23.91	81.00	26.24	(+) 2.33
Lining	24.45	7.92	17.24	5.59	(-) 2.33
Other items	1.76	0.57	1.76	0.57	0
<b>Total</b>	<b>100</b>	<b>32.40</b>	<b>100</b>	<b>32.40</b>	<b>--</b>
<b>Package-10</b>					
Tunnel & approach channel	71.44	20.06	82.02	23.03	(+) 2.97
Lining	26.88	7.55	16.30	4.58	(-) 2.97
Other items	1.68	0.47	1.68	0.47	0
<b>Total</b>	<b>100</b>	<b>28.08</b>	<b>100</b>	<b>28.08</b>	<b>--</b>

Since excavation work was to be executed first and lining work was to be taken up later, the incorrect approval of payment schedule led to front loading of payments for excavation of tunnel/approach channel. By the time the EPC agency stopped the works, it had executed most of the tunnel/approach channel excavation work and taken payments as per enhanced percentages and did not execute CC lining work, the cost of which was reduced in the payment schedule. Front loading of payments for tunnel/approach channel resulted in excess payment of ₹ 4.97 crore to the agency, as shown below:

	Total cost of tunnel in contract value w.r.to percentage in estimate (₹ in crore)	Percentage of tunnel work completed	Amount payable for work done (₹ in crore)	Amount actually paid (₹ in crore)	Excess payment (₹ in crore)
Package-6	23.91	97.76%	23.37	25.66	2.29
Package-10	20.06	89.98%	18.05	20.73	2.68
			<b>Total excess payment</b>		<b>4.97</b>

It was further observed that withdrawal of part of the work from the original contracts was done by invoking Clause 60 (c) of the Preliminary Specifications to the AP Detailed Standard Specifications (APDSS), which formed part of the EPC agreements. Under this clause, the additional cost incurred by the Department for completion of the balance work was to be recovered from the first agency, subject to a limit of five *per cent* of the total finished contract value. In the instant case, the increase in cost of execution of works deleted from the original contractor worked out to ₹ 29.49 crore in package-6 and ₹ 29.26 crore in package-10. However, the maximum amount recoverable from the agency as per Clause 60 (c) of APDSS worked out to ₹ 3.09 crore and ₹ 2.87 crore, respectively. The remaining additional cost of ₹ 26.4 crore and ₹ 26.39 crore was an additional burden on the state exchequer.

The Department in its reply (November 2016) stated that the payment schedule was proposed by the agency transferring a certain amount from the lining component to tunneling to meet the unforeseen risk items during tunneling and the same was approved by the Department. The reply was not acceptable as the contractor had not submitted component-wise cost estimates for the purpose of payment schedules, as required under the agreement conditions. Besides, it was also observed that while the cost percentage of lining work was reduced in the payment schedule to increase the cost percentage of tunnel/ approach channel excavation, the contractor did not execute the lining work on the ground that the cost of lining had increased and was not workable for him. The Department allowed higher payments to the contractor for tunnel/approach channel excavation without taking into account the cost implication of lining work which had led to the excess payment to the contractor.

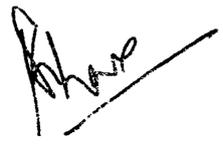
The Department further replied that the final account of the original agency would be settled as per the directions of the Government or as per the actual quantum of work done and the excess payment, if any, would be recovered from the assets of the agency available with the Department.

Hyderabad  
The 02 March 2017

  
(LATA MALLIKARJUNA)  
Accountant General  
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Countersigned

New Delhi  
The 03 March 2017

  
(SHASHI KANT SHARMA)  
Comptroller and Auditor General of India